

## Information on Washington's Tax Structure



# High Technology Business and Occupation Tax Credit

**The information contained in this fact sheet is current as of the date of publication and is intended only as general information. It does not cover every aspect of this incentive. Not all possible applications of this program are discussed. This fact sheet does not alter or supersede any administrative regulations or rulings issued by the Department.**

An annual credit of up to \$2 million is allowed for businesses that perform research and development in Washington under specific high technology categories AND meet the minimum expense requirements. The credit cannot exceed the amount of the business and occupation (B&O) tax due during the year the credit is taken. The credit rates follows:

- ◆ Nonprofit corporation or association  
— .484 percent (.00484) of expenses; and
- ◆ For profit businesses  
— 1.5 percent (.015) of expenses.



The technology categories are:

- ◆ Advanced computing;
- ◆ Advanced materials;
- ◆ Biotechnology;
- ◆ Electronic device technology; and
- ◆ Environmental technology.

## REQUIREMENTS

The business' spending on research and development during the year the credit is claimed must exceed .92 percent (0.0092) of the business' taxable amount during the same year.

Spending on research development includes expenses directly incurred while conducting the research and development including:

- ◆ Operating expenses;
- ◆ Wages and benefits;
- ◆ Supplies; and
- ◆ Computer expenses.

For example: A business reports \$1 million as its taxable amount on the Combined Excise Tax Return during a calendar year. This company must spend at least \$9,200 ( $\$1,000,000 \times .0092 = \$9,200$ ) on qualified research and development during the same calendar year to claim the credit.

Businesses may estimate their annual spending on research and development for the year and take the credit throughout the year. However, the spending does not reach the threshold, the business is required to pay the underpaid taxes, with interest, to the Department of Revenue.

A person performing research under contract has the option of using the greater of either its qualified research and development expenditures or 80 percent of the amounts received as compensation for conducting the qualified research and development.

A person performing qualified research and development under contract for another, MAY ASSIGN all or a portion of the credit to the person paying for the research and development. Both businesses must meet the eligibility requirements. Assigned credits may not exceed the smaller of the B&O tax of the research business or \$2 million.

### HOW DOES THE CREDIT WORK?

Example A: A for profit manufacturing business performs its own research and development. It has an estimated gross taxable income of \$2,000,000.

To determine if the business is eligible for the credit:

It must have expenses of at least \$18,400 ( $\$2,000,000 \times .0092 = \$18,400$ ). If the expenses are \$18,400 or more, the credit may be used.

To determine the amount of credit:

Multiply the expenses (\$18,400) times the rate (1.5%). The amount of credit is \$276 ( $\$18,400 \times .015 = \$276$ ).

To use the credit:

Since the business is a manufacturer, the B&O tax on the taxable amount is \$9,680 ( $\$2,000,000 \times .00484 = \$9,680$ ). The credit of \$276 should be subtracted from \$9,680, leaving a B&O tax due of \$9,404.

Example B: A for profit business is performing research for another company and is being paid \$90,000 for their contract.

80% of the total amount paid is used in determining the credit ( $\$90,000 \times .80 = 72,000$ ).

**NOTE:** The contractor could have used his or her qualified research expenditures to determine the allowable credit, but chose not to disclose his or her expenses.

To determine the amount of credit:

Multiply the 80% of the total amount paid (\$72,000) by the rate (1.5%). The amount of credit is \$1,080 ( $\$72,000 \times .015 = \$1,080$ ).

To use the credit:

The B&O tax rate for conducting research services is 1.5%. The B&O tax on \$90,000 is \$1,350 ( $\$90,000 \times .015 = \$1,350$ ). The credit of \$1,080 should be subtracted from the \$1,350 tax due, leaving B&O tax due of \$270.

In this example, the researcher could have assigned his or her credit to the company in which he or she was contracted to do the research.

Example C: A nonprofit business performs its own research and development. It has a gross taxable amount of \$1,000,000 and \$8,000 in expenses. To be eligible for the credit, this business must have \$9,200 of expenses. ( $\$1,000,000 \times .0092 = \$9,200$ ). This nonprofit business does not qualify. The credit can not be used.



When a credit is used, a copy of the Declaration Research and Development Credit form must be attached to the Combined Excise Tax Return. The credit should be entered on page one of the Combined Excise Tax Return, under the TOTALS section. The amount of the credit should also be entered on page two of the Combined Excise Tax Return under the CREDITS section, credit ID number 830.

## APPLICATION

**No preapproval from the Department of Revenue is required to use this credit.**

The first time a business uses the high technology B&O tax credit, it must complete an initial survey and mail it to the address shown on the bottom of the form. In addition, the business must complete the Declaration Research and Development Credit form and attach it to the Combined Excise Tax Return each time the credit is used.

A copy of the Declaration Research and Development Credit form and the Initial Survey is provided in this publication. an on the department's web site at <http://dor.wa.gov>

Additional applications may be obtained on the Department's web site at <http://dor.wa.gov> or by contacting our Telephone Information Center at 1-800-647-7706 (TTY 1-800-451-7985). You can also have the documents faxed by using the Fast Fax system and requesting code number 260003.

## LAWS AND RULES

- ◆ Chapter 82.63 Revised Code of Washington (RCW) — Business and Occupation Tax Credit and Retail Sales/Use Tax Deferral for High Technology Industries
- ◆ Chapter 82.04.4452 RCW — Credit — Research and development spending

The Department of Revenue will, upon request, provide copies of the laws and administrative rules.



State of Washington  
Department of Revenue  
Property Tax Division  
PO Box 47459  
Olympia WA 98504-7459

## INITIAL SURVEY

### Research And Development Credit

(Authority: RCW 82.04.4452)

*All information provided in this survey is confidential and subject to RCW 82.32.330. This is an informational survey only. Completing this survey doesn't automatically qualify your company to take the credit.*

Revenue Tax Account No: \_\_\_\_\_

Name: \_\_\_\_\_

Company Name: \_\_\_\_\_

Address: \_\_\_\_\_

City, State & Zip Code: \_\_\_\_\_ County: \_\_\_\_\_

Phone No.: ( ) \_\_\_\_\_ Fax No.: ( ) \_\_\_\_\_

Check the following box(es) indicating the type of research and development performed in the state of Washington.

- |   |   |   |
|---|---|---|
| <input type="checkbox"/> Advanced Computing | <input type="checkbox"/> Biotechnology                | <input type="checkbox"/> Environmental Technology |
| <input type="checkbox"/> Advanced Materials | <input type="checkbox"/> Electronic Device Technology |   |

RCW 82.04.4452(7) states, "A person claiming the credit shall agree to supply the department with information necessary to measure the results of the tax credit program for qualified research and development expenditures." Every person claiming the credit will be asked to complete this initial survey to allow a base for future information gathering surveys. The department is required to measure the effect of the program on job creation, the number of jobs created for Washington residents, company growth, the introduction of new products, the diversification of the state's economy, growth in research and development investment and the movement of firms or the consolidation of firms' operations into the state, and such other factors as the department selects.

1. Enter the number of FTEs (full time equivalent to 2080 hrs/yr) employed now ..... \_\_\_\_\_
2. Enter the percentage of FTEs that are Washington residents..... \_\_\_\_\_ %
3. Enter the annual gross income of the business ..... \_\_\_\_\_ \$
4. Enter the estimated amount of your Research and Development spending ..... \_\_\_\_\_ \$
5. What type of business entity are you?  
☐ Corporation    ☐ Partnership    ☐ Sole proprietorship
6. Is this a new business in Washington?    ☐ Yes    ☐ No
7. Are you relocating your business as a result of this program?    ☐ Yes    ☐ No
8. Do you plan on participating in any of following tax incentive programs?  

<input type="checkbox"/> R&D deferral RCW82.63	<input type="checkbox"/> Rural area deferral RCW82.60
<input type="checkbox"/> Rural job credit RCW82.62	<input type="checkbox"/> Rural help desk credit RCW82.04.4457
<input type="checkbox"/> Rural software credit RCW82.04.4456	<input type="checkbox"/> Manufacturing machinery exemption RCW82.08.02565

Remarks: \_\_\_\_\_

Please send  
completed  
survey to:

Attn: Erling Johnson  
Washington State Department of Revenue  
Research Division  
PO Box 47459  
Olympia WA 98504-7459

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PO Box 47459  
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## DECLARATION RESEARCH AND DEVELOPMENT CREDIT

(Authority: RCW 82.04.4452)

Revenue Tax Account No.: \_\_\_\_\_

For Reporting Period: \_\_\_\_\_

Name: \_\_\_\_\_

Company Name: \_\_\_\_\_

This credit is being assigned to: \_\_\_\_\_

Address: \_\_\_\_\_

City, State & Zip Code: \_\_\_\_\_

This credit is assigned from: \_\_\_\_\_

Phone No.: \_\_\_\_\_ Fax No.: \_\_\_\_\_

Check the following box(es) indicating the type of research and development performed in the state of Washington.

☐ Advanced Computing

☐ Biotechnology

☐ Environmental Technology

☐ Advanced Materials

☐ Electronic Device Technology

Questions A, B, and C are annual estimates to determine if your firm meets the threshold of .92 percent of research and development expenditures.

A. Estimated Taxable Amount for current calendar year ..... \$ \_\_\_\_\_

**Instructions:** Include the gross amount required to be reported on the Combined Excise Tax Return, less any amounts for which a Multiple Activities Tax Credit is allowed.

B. Estimated Research and Development spending for current calendar year..... \$ \_\_\_\_\_

**Instructions:** Include operating expenses, including wages and benefits (or compensation of a proprietor or a partner in lieu of wages), supplies, and computer expenses, directly incurred in qualified research and development. Do not include capital costs and overhead, such as expenses for land, structures, or depreciable property. (Qualified research and development means research and development conducted in this state in the areas of advanced computing, advanced materials, biotechnology, electronic device technology, or environmental technology.)

Also include amounts paid to public educational or research institutions to conduct qualified research and development and 80 percent of amounts paid to any person other than a public educational or research institution to conduct qualified research and development on your behalf.

C. Divide line B by line A..... % \_\_\_\_\_

Line C must be greater than .92 percent (.0092) or no credit can be taken.

Questions 1 through 6 are for this reporting period only and should be actual amounts to determine applicable credit for this reporting period, i.e., monthly, quarterly, or annual.

1. Qualified research and development expenditures in the state of Washington for this reporting period..... \$ \_\_\_\_\_

**Instructions:** Same expenditure elements as line B, but for this reporting period only. Do not include amounts paid to any person other than a public educational or research institution to conduct qualified research and development on your behalf. If credit is assigned to you, use line 5 for the amount of credit assigned. If you perform qualified research and development for others under contract, you may use 80 percent of the amount received for the research and development activities you performed rather than actual expenditures.

2. Is your organization a nonprofit corporation or a nonprofit association? ☐ Yes ☐ No

3. If the answer to line 2 is "Yes", then multiply line 1 by .484 percent (.00484)..... \$ \_\_\_\_\_

4. If the answer to line 2 is "No", then multiply line 1 by 1.5 percent (.015)..... \$ \_\_\_\_\_

5. Amount of assigned credit (attach additional forms as necessary)..... \$ \_\_\_\_\_

6. Carry-over or reduction of credit amounts from prior reporting periods within same calendar year ..... \$ \_\_\_\_\_

7. Total credit for this reporting period (not to exceed the amount of B&O tax)..... \$ \_\_\_\_\_

(Internal use  
only)

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**Instructions:** Add the amount shown on line 3 or 4 to the amounts shown on lines 5 and 6 and enter the total on line 7.

8. Total credit taken in previous periods this calendar year..... \$ \_\_\_\_\_

9. Cumulative credit including this period (line 7 plus line 8). (Total credits claimed during any calendar year may not exceed \$2,000,000 or the amount of B&O tax which would otherwise be due for the same calendar year.) ..... \$ \_\_\_\_\_

All information provided is subject to future audit. Any falsification of this form may result in a 50% evasion penalty for the B&O taxes actually due for this period. I declare under penalty of perjury under the laws of the state of Washington that the foregoing is true and correct.

Signed: \_\_\_\_\_ Title: \_\_\_\_\_

Date: \_\_\_\_\_ Place: \_\_\_\_\_

After completion, make a copy for your files, attach, & return original with your Combined Excise Tax Return.

**QUALIFYING RESEARCH**  
**Must be performed within the state of Washington**

Research and development does not include adaptation or duplication of existing products where the products are not substantially improved by application of the technology. The term also does not include surveys and studies, social science and humanities research, market research or testing, quality control, sales promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, and seasonal design.

**ADVANCED COMPUTING**

Technologies used in the designing and developing of computing hardware and software, including innovations in designing the full spectrum of hardware from hand-held calculators to super computers, and peripheral equipment.

**ADVANCED MATERIALS**

Materials with engineered properties created through the development of specialized processing and synthesis technology, including ceramics, high value-added metals, electronic materials, composites, polymers, and biomaterials. It applies specifically to the invention or creation of new advanced materials.

**BIOTECHNOLOGY**

The application of technologies, such as recombinant DNA techniques, biochemistry, molecular and cellular biology, genetics and genetic engineering, cell fusion techniques, and new bioprocesses, using living organisms, or parts of organisms, to produce or modify products, to improve plants or animals, to develop microorganisms for specific uses, to identify targets for small molecule pharmaceutical development, or to transform biological systems into useful processes and products or to develop microorganisms for specific uses.

**ELECTRONIC DEVICE TECHNOLOGY**

Technologies involving microelectronics; semiconductor; electronic equipment and instrumentation; radio frequency, microwave, and millimeter electronics; and optical and optic-electrical devices; and data and digital communications and imaging devices. "Electronics" includes devices which change electrical current's behavior to make it act as a signal representing sounds, pictures, numbers or other information, devices, circuits, or systems which include components such as electron tubes, amplifiers, transistors, or devices that do the work of electron tubes, any systems network whose operation involves the use of non-mechanical amplification or switching devices, such as tubes, transistors, thyristors, or integrated circuits, and any device that operates by means of electronic charge carriers.

**ENVIRONMENTAL TECHNOLOGY**

Products, processes, techniques, formulas, inventions or software used for the assessment and prevention of threats or reduction of damage or risk of damage to human health or the environment, environmental cleanup, the creation of more environmentally benign conditions, or the development of alternative energy sources. "Environmental cleanup" means a "remedy" or "remedial action" as defined in RCW 70.105D.010(11) (The Model Toxics Control Act) and WAC 173-340-200, (The Model Toxics Control Act Cleanup Regulation); and/or a "corrective action" as described in WAC 173-303-646, and 40 CFR 264-100 and 101 (as amended).

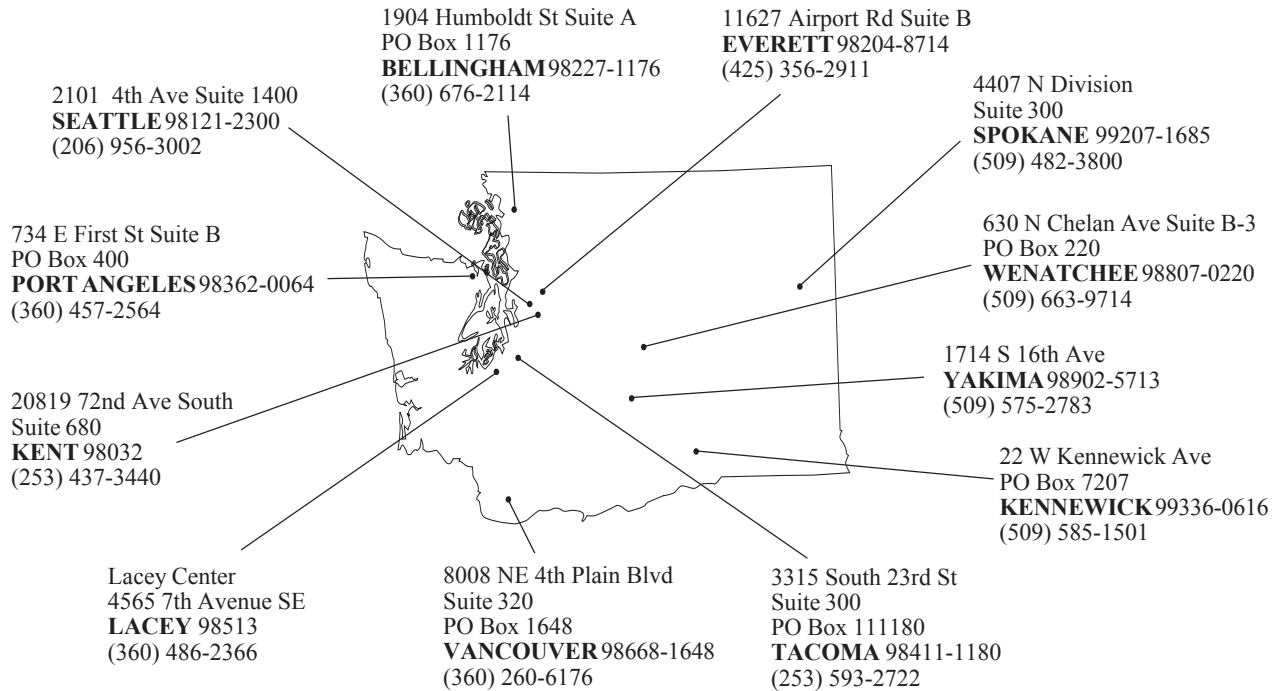
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# Department of Revenue Taxpayer Assistance



<http://dor.wa.gov>

## Field Office Locations



## Telephone Information Center 1-800-647-7706

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